

PUBLIC DISCLOSURE

AUGUST 24, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

CAPE ANN SAVINGS BANK
Certificate # 90203

109 Main Street
Gloucester, Massachusetts 01930

Division of Banks
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Boston, Massachusetts 02118

Federal Deposit Insurance Corporation
350 Fifth Avenue, Suite 1200
New York, New York 10118

This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the Division of Banks or the Federal Deposit Insurance Corporation concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

INSTITUTION'S CRA RATING:

This institution is rated "**High Satisfactory**" by the Division.

This institution is rated "**Satisfactory**" by the FDIC.

(Please note that the FDIC's rating matrix does not provide for a "High Satisfactory" rating.)

An institution in this group has a good record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Lending Test

The institution is rated "**Outstanding**" under the Lending Test. This rating is supported by the following summary of results.

- The loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The bank made a substantial majority of its home mortgage and small business loans in the assessment area.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- The distribution of borrowers reflects excellent penetration of loans among borrowers of different income levels and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

Community Development Test

The institution is rated "**Satisfactory**" under the Community Development Test.

The institution demonstrated adequate responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services. Examiners considered the institution's capacity and the need and availability of such opportunities for community development throughout the institution's assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation, dated June 4, 2012, to the current evaluation dated August 24, 2015. Examiners assessed Cape Ann Savings Bank's CRA performance using the Interagency Intermediate Small Bank ("ISB") Examination Procedures established by the Federal Financial Institutions Examination Council. These procedures include two performance tests: the Lending Test and the Community Development Test. The Lending Test considered the institution's performance under the following criteria.

- Loan-to-deposit ratio
- Assessment area concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

The Community Development Test considered the following factors.

- Number and dollar amount of community development loans, qualified investments and community development services
- The responsiveness of such activities to the community development needs of the assessment area

Loan Products Reviewed

The Lending Test considered the bank's home mortgage and small business lending. The bank's most recent Report of Condition and Income ("Call Report"), dated June 30, 2015, indicated that residential lending, including all loans secured by one-to-four family and multi-family (five or more unit) residential properties, represented 82.1 percent of the loan portfolio. Commercial lending, consisting of commercial real estate and commercial and industrial loans, represented 13.4 percent of the loan portfolio. Residential lending also represented a significant majority of loan volume during the current review period. Based on this information, examiners placed more weight on the bank's home mortgage lending performance. In addition, small farm and consumer loans do not represent a major product line; therefore, examiners did not perform further analysis.

Data reviewed includes all originated home mortgage loans reported on the bank's Home Mortgage Disclosure Act ("HMDA") loan application registers ("LARs") for full years 2013 and 2014 as well as year-to-date (YTD) data for 2015. The LARs contain data about home purchase and home improvement loans, including refinances, of one-to-four family and multi-family properties. The institution reported 234 loans totaling \$69.1 million in 2013; 200 loans totaling \$60.6 million in 2014; and 96 loans totaling \$27.9 million for the first six months of 2015. The bank's 2013 home mortgage lending performance was compared against 2013 aggregate lending data. Aggregate data includes the lending activity of all institutions subject to HMDA reporting requirements that originated or purchased at least one home mortgage loan in the assessment area. The evaluation focused on the bank's lending performance in 2013, as aggregate data for 2014 was not yet available.

As an ISB, Cape Ann Savings Bank is not required to collect or report small business data; therefore, examiners selected a sample of small business loans originated in 2014. This sample was considered representative of the bank's performance during the entire evaluation period. The bank originated 70 small business loans totaling \$9.4 million in 2014, of which examiners sampled 39 loans totaling \$4.5 million. D&B business demographic data for 2014 provided a standard of comparison for the sampled small business loans.

While dollar amounts are presented under the Lending Test, the evaluation is primarily based on the bank's lending performance by the number of loans. The number of loans is a better indicator of the number of businesses and individuals served. Demographic information referenced in this evaluation was obtained from the 2010 United States (U.S.) Census, unless otherwise noted. Financial data about the bank was obtained from the June 30, 2015 Call Report.

The Community Development Test considered the number and dollar amount of community development loans, qualified investments, and community development services between June 4, 2012 and August 24, 2015.

The Division and FDIC conducted the prior CRA Evaluation using ISB procedures as of June 4, 2012. The evaluation resulted in an overall "High Satisfactory" rating by the Division and an overall "Satisfactory" rating by the FDIC.

DESCRIPTION OF INSTITUTION

Background

Cape Ann Savings Bank is a Massachusetts state-chartered mutual savings bank headquartered in Gloucester. In addition to its main office located at 109 Main Street in Gloucester, the bank operates another full-service branch in Manchester-by-the-Sea (Manchester), and a limited-service branch at the Gloucester High School. Additionally, the bank merged with Granite Savings Bank in the first quarter of 2015. Granite Savings Bank had one branch which re-opened as Cape Ann Savings Bank upon completion of the merger. The newly named branch is located in Rockport. All banking offices are equipped with automated teller machines (“ATMs”), and the bank operates 10 stand-alone ATMs located in Gloucester (5), Magnolia (1), Manchester (1), and Rockport (3). The Gloucester branches are located in moderate-income census tracts, the Manchester branch is located in an upper-income tract, and the Rockport branch is located in a middle-income tract. The bank closed one ATM in Gloucester in September 2013.

Operations

The bank is a full-service financial institution offering deposit products such as checking, savings, and retirement accounts, as well as loan products such as home financing programs that include fixed- and adjustable-rate mortgage programs for the purchase, refinance, improvement, and construction of residential property. Additionally, the bank offers consumer credit products including home equity lines of credit, home improvement loans, automobile loans, personal loans, and overdraft lines of credit. Further, the bank provides trust and investment services through its Trust Department.

Cape Ann Savings Bank offers commercial customers checking, savings, and money market accounts. Merchant servicing is also available. Financing options include commercial real estate loans, term loans, lines of credit, construction loans, permanent mortgages, and domestic/international letters of credit. The bank is a U.S. Small Business Administration (SBA) lender.

The bank had total assets of \$541.3 million as of June 30, 2015. Assets increased approximately 24.1 percent since the previous evaluation. As of June 30, 2015, total loans stood at \$332.6 million, and represented 61.4 percent of total assets. The table below illustrates the distribution of the bank’s loan portfolio as of June 30, 2015.

Loan Portfolio Distribution as of June 30, 2015		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	16,176	4.9
Secured by Farmland	94	0
Secured by 1-4 Family Residential Properties	258,471	77.7
Secured by Multi-Family (5 or more) Residential Properties	11,764	3.5
Secured by Non-farm Non-residential Properties	34,304	10.3
Agricultural Production and Other Loans to Farmers	0	0
Commercial and Industrial Loans	10,329	3.2
Consumer	1,486	0.4
Obligations of States and Political Subdivisions in the United States	0	0.0
Other Loans	16	0.0
Lease Financing Receivables (net of unearned income)	0	0.0
Total Loans and Leases	332,640	100.0

Source: June 30, 2015 Call Report

Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment area within which its CRA performance will be evaluated. Cape Ann Savings Bank has designated its AA within the Cambridge-Newton-Framingham, MA Metropolitan District (MD) (#15764). The bank's assessment area conforms to CRA requirements since it consists of whole geographies, does not arbitrarily exclude low- and moderate-income areas, and does not reflect illegal discrimination. The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

The bank delineated its assessment area to include the whole Towns of Essex, Manchester, and Rockport, and the City of Gloucester. The area is an island, located approximately 30 miles northeast of Boston, which is physically separated from the rest of Massachusetts by the Annisquam River. All of the municipalities are located in Essex County.

The assessment area encompasses 13 census tracts with the following income designations according to the 2010 U.S. Census and updated in 2014 by the Office of Management and Budget (OMB):

- 1 low-income tract,
- 4 moderate-income tracts,
- 7 middle-income tracts, and
- 1 upper-income tract.

Prior to the 2014 OMB census tract boundary changes, the assessment area did not include any low-income geographies. Overall, the 2014 OMB changes resulted in decreasing census tract

income levels. For example, five tracts changed from upper- to middle-income, and two middle-income became moderate-income tracts. The low-income tract added in 2014 had previously been designated as moderate-income. The changes resulted from the incorporation of the Peabody Metropolitan District into the Cambridge-Newton-Framingham Metropolitan District. The following tables illustrate select demographic characteristics of the assessment area as of 2014.

Demographic Information for the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts)	13	7.7	30.8	53.8	7.7	0.0
Population by Geography	44,381	5.5	30.4	52.5	11.6	0.0
Owner-Occupied Housing Units by Geography	22,135	3.9	25.2	59.2	11.7	0.0
Non-Farm Businesses by Geography	4,267	3.0	35.6	47.8	13.6	0.0
Distribution of Families by Income	11,971	21.0	18.8	22.9	37.3	0.0
Median Family Income (2010 U.S. Census)		\$90,625	Median Housing Value	\$465,541		
2014 FFIEC-Estimated Median Family Income		\$93,300	Unemployment Rate	3.9%		
Families Below Poverty Level		3.8%				

Sources: 2010 U.S. Census data, 2014 D&B data, 2014 FFIEC-Estimated Median Family Income

The table above shows that the majority of the population owner-occupied units are located in middle-income geographies, with moderate-income income tracts representing the next highest percentages.

According to 2014 D&B data, there were 4,267 non-farm businesses across the assessment areas. Gross annual revenues (GARs) for these businesses are below.

- 74.7 percent have \$1 million or less.
- 4.6 percent have more than \$1 million.
- 20.7 percent have unknown revenues.

The analysis of small business loans under the Borrower Profile section of the Lending Test compares the distribution of businesses by GAR level. Service industries represent the largest portion of businesses at 43.9 percent; followed by retail trade at 13.0 percent; and non-classifiable establishments at 12.1 percent. Over two-thirds of businesses in the area employ four or fewer people, and 93.5 percent of businesses in the area operate from a single location. Tourism, hospitality, and small retail shops represent a significant portion of businesses overall.

FFIEC-estimated median family income data is used to analyze home mortgage loans under the Borrower Profile section of the Lending Test. The low-, moderate-, middle-, and upper-income categories are presented in the following table. These categories are based on the 2014 FFIEC-estimated median family income of \$93,300 for the Cambridge-Newton-Framingham, MA MD.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2014 Median Family Income (\$93,300) – Cambridge-Newton-Framingham, MA MD				
2014	<\$46,650	\$46,650 to <\$74,640	\$74,640 to <\$111,960	≥111,960

Source: 2014 FFIEC-Estimated Median Family Income

There are 22,135 housing units in the assessment area, of which 12,614 are owner-occupied, 6,068 are occupied rental units, and 3,453 are vacant. The median housing value of \$465,541 suggests a relatively expensive housing market, compared to the State of Massachusetts.

Examiners further analyzed housing prices by using data from The Warren Group. In 2014, the average sales price was \$498,255 throughout the assessment area. Median sales prices ranged from \$360,000 in Gloucester to \$575,000 in Essex. This further suggests a relatively affluent area and potential barriers to lower-income families obtaining affordable housing.

Competition

Cape Ann Savings Bank operates in a competitive lending environment. The bank faces competition from large national and regional banks, mortgage companies, community banks, and credit unions in the area. Residential lending market share reports for 2013 revealed that 200 lenders reported 2,241 originations and/or purchases totaling approximately \$792 million in the assessment area. The bank ranked 1st and captured 8.7 percent of the market share with 211 originations or purchases totaling \$62.5 million. The next top three banks were JPMorgan Chase Bank, NA, Wells Fargo Bank, NA, and Guaranteed Rate, Inc., with a combined market share of 18.9 percent.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying the credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

Examiners contacted a representative of an affordable housing organization within the assessment area. The contact identified affordable housing stock (specifically rental housing) as a primary need of the area. The limited availability of housing and the long waiting period for elderly housing are symptomatic of a limited housing supply for those most vulnerable. There are upcoming rental projects that would present opportunity for financial institution involvement. Despite these current needs, the contact noted that area institutions (Cape Ann Savings, BankGloucester, Institution for Savings) are very involved and willing to assist with the homeownership collaborative in an advisory capacity for mortgage originations. The contact noted one area in which community development involvement by financial institutions could be improved. Specifically, there is a need for more consistency in delivering financial education programs throughout the course of a year.

Credit and Community Development Needs and Opportunities

Considering the community contact information, bank management input, and demographic data, examiners determined that housing loans represent a primary credit need for the assessment area. There is a large stock of owner-occupied housing in the area, which is appreciating in value. As prices for these homes rise, affordability decreases for a large segment of the population. As the community contact noted, there is an on-going need for financial education throughout the assessment area.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Cape Ann Saving's Bank demonstrated excellent performance under the Lending Test. Geographic Distribution and Borrower Profile performance provide the primary support for this conclusion.

Loan-to-Deposit Ratio

The LTD ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio, calculated from Call Report data, averaged 76.2 percent over the past 13 calendar quarters from June 30, 2012 to June 30, 2015. The ratio ranged from a low of 68.3 percent as of June 30, 2012 to a high of 83.8 percent as of June 30, 2015. The following table compares the bank to three similarly situated banks, by total assets as of June 30, 2015, and the average LTD ratio over the previous 13 quarters. Examiners selected comparable institutions based on their asset size, geographic location, and lending focus.

Loan-to-Deposit Ratio Comparison		
Institution	Total Assets \$(000s)	Average LTD Ratio (%)
Cape Ann Savings Bank	541,346	76.2
Beverly Bank	358,984	95.3
First Ipswich	337,948	83.2
Bank Gloucester	205,081	99.9
Source: Call Report Data		

While the bank's ratio is below that of the similarly situated institutions, the increasing trend during the evaluation period supports reasonable performance. Loan growth of approximately 45.7 percent outpaced both the deposit and total asset growth, of 21.0 and 24.1 percent, respectively.

Assessment Area Concentration

The bank made a substantial majority of home mortgage and small business loans, by number and dollar volume, within its assessment area. The bank's performance of home mortgage lending in the assessment area was consistent throughout the evaluation period. Please see the following table for details.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total #	Dollars Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home										
2013	209	89.3	25	10.7	234	61,984	89.7	7,134	10.3	69,118
2014	174	87.0	26	13.0	200	52,419	86.5	8,172	13.5	60,591
YTD 2015	83	86.5	13	13.5	96	23,762	85.1	4,171	14.9	27,933
Subtotal	466	87.9	64	12.1	530	138,165	87.6	19,477	12.4	157,642
Small Business*	33	84.6	6	15.4	39	3,871	85.7	648	14.3	4,519
Source: 2013, 2014 and two quarters of 2015 HMDA Reported Data, (*)2014 Bank Records										

Geographic Distribution

The geographic distribution of loans reflects excellent dispersion throughout the assessment area. Examiners focused on the percentage by number of loans in moderate-income census tracts in 2013, and low- and moderate-income census tracts in 2014 and YTD 2015.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects excellent dispersion throughout the assessment area. Examiners focused on the comparison to aggregate data. The following table shows that the bank's 2013 performance in moderate-income census tracts is above aggregate data. In 2014, the number of loans in moderate-income census tracts increased, largely as a result of the changes in census tract income designations. The inclusion of a new low-income census tract in 2014 showed that the bank continued to perform well compared to pertinent area demographics.

For YTD 2015, the bank's performance of lending in the low-income census tract is relatively in line with demographics. In addition, the bank's performance of lending in moderate-income census tracts reflects an increasing trend YTD 2015.

Market share data further supported the bank's excellent performance. In 2013, the bank ranked 1st in lending to moderate-income census tracts with a market share of approximately 12 percent. This market share exceeded all other institutions by several percentage points. Cape Ann Savings Bank was above much larger national, which supports its position as a leader in the assessment area.

Geographic Distribution of Home Mortgage Loans						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2014	3.9	--	9	5.2	1,799	3.4
YTD 2015	3.9	--	3	3.6	575	2.4
Moderate						
2013	12.6	11.5	34	16.3	7,356	11.9
2014	25.2	--	50	28.7	12,912	24.6
YTD 2015	25.2	--	30	36.1	7,366	31.0
Middle						
2013	33.3	29.5	80	38.3	21,707	35.0
2014	59.3	--	99	56.9	28,007	53.5
YTD 2015	59.3	--	45	54.2	12,461	52.5
Upper						
2013	54.1	59.0	95	45.4	32,921	53.1
2014	11.6	--	16	9.2	9,701	18.5
YTD 2015	11.6	--	5	6.1	3,360	14.1
Totals						
2013	100.0	100.0	209	100.0	61,984	100.0
2014	100.0	--	174	100.0	52,419	100.0
YTD 2015	100.0	--	83	100.0	23,762	100.0
<i>Source: 2010 U.S. Census; 2013, 2014, and two quarters of 2015 HMDA Reported Data; 2013 HMDA Aggregate Data "--" data not available</i>						

Small Business Loans

The geographic distribution of sampled small business loans reflects adequate dispersion. The bank did not originate any loans in the single low-income census tract; however, the bank's performance of lending in moderate-income tracts exceeded demographics by 3.8 percentage points. The percentage of loans by dollar amount also exceeds pertinent business demographics by several percentage points. The small percentage of businesses located in the low-income census tract reflects limited opportunity for lending in this tract.

Geographic Distribution of Small Business Loans					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	3.0	0	0.0	0	0.0
Moderate	35.6	13	39.4	1,650	42.6
Middle	47.8	15	45.5	2,020	52.2
Upper	13.6	5	15.1	201	5.2
Total	100.0	33	100.0	3,871	100.0
<i>Source: 2014 D&B Data, Bank Records</i>					

Borrower Profile

The distribution of borrowers reflects excellent penetration among individuals of different income levels and businesses of different sizes in the assessment area. The bank's reasonable performance of home mortgage and small business lending supports this conclusion. Examiners focused on the percentage by number of home mortgage loans to low- and moderate-income borrowers. They also focused on the percentage by number of small business loans to businesses with GARs of \$1 million or less.

Home Mortgage

The distribution of home mortgage loans to individuals of different income levels, including low- and moderate-income borrowers, is excellent. Examiners focused on the comparison to aggregate data.

Home mortgage lending to low-income borrowers, at 9.1 percent, significantly exceeds aggregate. The bank's performance of lending to moderate-income borrowers slightly exceeds aggregate. In both categories, the bank performed below the demographic comparison. Low- or moderate-income families in the assessment area, with incomes below \$46,650 or \$74,640, respectively, would not likely qualify for a mortgage under conventional underwriting standards considering the relatively high median housing price of \$465,541. This helps explain the difference between the bank's performance and demographics. The number and percentage of loans were comparable between 2013 and 2014. In addition, the bank increased the percentage of loans to low- and moderate-income borrowers YTD 2015.

Market share data supports the bank's excellent performance under this criterion. In 2013, the bank ranked 1st with 15.8 percent market share in lending to low-income borrowers, which exceeded the market share percentage of the 2nd ranked lender. The bank also ranked 1st in lending to moderate-income borrowers. Placing as the top lender among several larger institutions exhibits the bank's success of originating home mortgage loans to low- and moderate-income borrowers.

Distribution of Home Mortgage Loans by Borrower Income Level						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low						
2013	19.0	4.6	19	9.1	1,958	3.2
2014	21.0	--	16	9.2	2,746	5.3
YTD 2015	21.0	--	11	13.3	1,764	7.4
Moderate						
2013	15.7	13.2	28	13.4	4,648	7.5
2014	18.8	--	31	17.8	5,420	10.3
YTD 2015	18.8	--	15	18.1	2,381	10.0
Middle						
2013	21.4	22.1	52	24.9	13,218	21.3
2014	22.9	--	44	25.3	10,454	19.9
YTD 2015	22.9	--	22	26.5	5,247	22.1
Upper						
2013	43.9	50.6	96	45.9	36,901	59.5
2014	37.3	--	66	37.9	27,567	52.6
YTD 2015	37.3	--	22	26.5	9,217	38.8
Income Not Available						
2013	NA	9.5	14	6.7	5,259	8.5
2014	NA	--	17	9.8	6,232	11.9
YTD 2015	NA	--	13	15.6	5,153	21.7
Total						
2013	100.0	100.0	209	100.0	61,984	100.0
2014	100.0	--	174	100.0	52,419	100.0
YTD 2015	100.0	--	83	100.0	23,762	100.0
<i>Source: 2010 U.S. Census; 2013, 2014 and two quarters of 2015 HMDA Reported Data; 2013 HMDA Aggregate Data; "--" data not available</i>						

Small Business Lending

The distribution of small business loans reflects good penetration of loans to businesses with GARs of \$1 million or less. The following table shows that 78.8 percent of the sampled loans were originated to businesses with GARs of \$1 million or less. This level of lending exceeds demographics by 4.1 percentage points and as such reflects good performance.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	74.7	26	78.8	2,130	55.0
> \$1,000,000	4.6	7	21.2	1,741	45.0
Revenue Not Available	20.7	0	0.0	0	0.0
Total	100.0	33	100.0	3,871	100.0
<i>Source: 2014 D&B Data, Bank Records</i>					

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

Cape Ann Savings Bank demonstrated adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's assessment area.

Community Development Loans

The bank originated 29 community development loans totaling \$1.6 million since the previous evaluation. This level of activity represents 0.3 percent of average total assets and 0.5 percent of average total loans, which reflects a significant increase in the number and dollar volume from the prior evaluation period. Specifically, the bank had made five community development loans totaling \$246,000 during the prior period. The following table illustrates the bank's community development lending activity by year and purpose.

Community Development Loans						
Activity Year	Affordable Housing		Economic Development		Totals	
	#	\$	#	\$	#	\$
2012 *	1	200,00	4	64,000	5	264,000
2013	0	0	8	176,930	8	176,930
2014	0	0	14	1,155,907	14	1,155,907
2015 **	0	0	2	20,000	2	20,000
Total	1	200,00	28	1,416,837	29	1,616,837
<i>Source: Bank Records - *From June 4, 2012 to December 31, 2012. **From January 1, 2015 through August 24, 2015.</i>						

Below are the details of the bank's community development loans:

- During the evaluation period, the bank originated 26 loans totaling \$635,151 under the Capital Access Program. In 2012, the bank originated 4 loans totaling \$64,000; in 2013, 8 loans totaling \$176,930; in 2014, 12 loans totaling \$374,221; and in 2015, 2 loans totaling \$20,000. The Massachusetts Business Development Corporation created the Capital Access Program in 1993 to partner with banks to make loans to community-based small businesses in order to help businesses retain and create jobs and expand their businesses. The funds are committed to provide cash collateral guarantees to banks that make loans to smaller businesses. Cape Ann Savings Bank began their involvement in the program in 2012.
- During the evaluation period, the bank originated two SBA 504 loans totaling \$781,686. The SBA 504 program offers financing for qualified businesses that may not be eligible for traditional bank financing. The loans provide growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings.
- In December 2012, the bank originated a \$200,000 loan to an affordable housing agency located in Rockport. The loan was for the purchase of a 31-unit apartment building. All units are designated as affordable housing for low- and moderate-income individuals and families.

Qualified Investments

Qualified investments total \$214,776 including prior period investments of \$109,711 and qualified investments of \$105,065 made during the current evaluation period. Current qualified investments reflect an increase over the total noted during the prior evaluation period of \$159,415. The following table illustrates the bank's community development investments by year and purpose.

Qualified Investments								
Activity Year	Affordable Housing		Community Services		Economic Development		Totals	
	#	\$	#	\$	#	\$	#	\$
Prior Period	0	0	0	0	2	109,711	2	109,711
2012 *	3	4,000	5	4,450	0	0	8	8,450
2013	3	4,000	10	7,400	0	0	13	11,400
2014	4	6,500	15	36,008	0	0	19	42,508
2015 **	3	6,500	11	36,207	0	0	14	42,707
Total	13	21,000	41	84,065	2	109,711	56	214,776
<i>Source: Bank Records- *From June 4, 2012 through December 31, 2012. **From January 1, 2015 through August 24, 2015.</i>								

Qualified Equity Investments

Massachusetts Business Development Corporation – This organization was established to promote economic development throughout Massachusetts. The organization provides loans to smaller businesses where the potential for economic expansion and job creation is high. The bank

provides funds to this organization when there is a need. The current book value of the bank's investment is \$59,711.

Gloucester Investment Corporation – The bank was an original investor in this organization, which was created in 1993 to foster the creation and retention of jobs throughout the City of Gloucester. The fund provides low-interest secondary financing, along with matching city grants, for the establishment and expansion of small businesses in the Cape Ann area. The current book value of this investment is \$50,000.

Qualified Donations

The bank made qualified donations to organizations that provide community development services, affordable housing, and are involved in economic development activities. Between June 4, 2012, and August 24, 2015, Cape Ann Savings Bank made qualified donations totaling \$105,065. The amounts qualified in calendar years 2013 and 2014 represent 0.4 percent and 1.2 percent, respectively, of the bank's pre-tax net operating income.

Below are notable examples of the organizations to which the bank made qualified donations:

- A non-profit agency that has helped over 100,000 victims of abuse on the North Shore by providing comprehensive counseling, shelter, and program services. The majority of individuals served are low- or moderate-income.
- Non-profit organization that is developing eight units of affordable housing for survivors of brain injury. This category of disabled person is underserved in the state, and this organization has created a service to help fill this need.
- A non-profit organization that serves the North Shore community through meeting basic human needs by providing shelter, affordable housing, local economic opportunities, and education to low-income individuals.
- A food pantry serving the Cape Ann community by providing free meals and food in a hospitable environment, providing advocacy on behalf of the disadvantaged, and providing job-skills training and job placement through various programs.
- An organization focused on funding other local non-profit organizations based on an assessment of the critical needs of the North Shore. The bank's donations provided funding to organizations offering affordable housing, affordable healthcare and childcare, job training, and other related services in the assessment area.

Community Development Services

Cape Ann Savings Bank provided an adequate level of community development services. The bank is currently involved in eight local services and community development organizations, lending their financial expertise. The following table illustrates the bank's community development services by year and purpose.

Community Development Services				
Activity Year	Community Development Purpose			Totals
	Affordable Housing	Community Services	Economic Development	
	#	#	#	
2012*	1	14	1	16
2013	1	18	1	20
2014	1	16	1	18
2015**	1	17	1	19
Total	4	65	4	73
<i>Source: Bank Records- *From June 4, 2012 through December 31, 2012. **From January 1, 2015 through August 24, 2015.</i>				

Bank Employee Involvement

During the evaluation period, officers and employees of the bank were involved in a number of organizations in various capacities that represented a community development purpose. Bank personnel provided these organizations with financial expertise serving as directors, officers, loan committee members, and volunteers.

The following are notable examples of the bank's community development services:

Harborlight Community Partners (HCP) – This organization provides a wide range of housing and services targeted toward low- and moderate-income individuals in Essex County. HCP currently owns, manages, or supports 341 housing units providing homes for over 450 individuals. This housing includes 17 rental facilities located in 7 communities on the North Shore, and 53 first-time buyer units largely through partnership with Community Land Trust of Cape Ann. A bank officer serves as the President of the Board of Directors for this organization.

Gilbert Residuary Fund – The President, an officer, and three Trustees serve on this committee, which provides funds to benefit the poor throughout Gloucester.

Gloucester Investment Corporation – This is a non-profit organization formed to provide low-cost financing to companies unable to secure conventional financing and to help with job growth and retention. A Bank Officer serves as the clerk of this organization.

Gloucester Housing Authority's Cape Ann Home Ownership Center – This organization assists individuals that are dealing with foreclosure issues. Several bank employees perform financial education four times a year through this organization.

Gloucester Housing Authority – This organization provides affordable housing throughout Gloucester. The organization also manages Rockport Housing Authority, which provides affordable housing units in Rockport. Both entities provide affordable housing to low- and moderate-income individuals. A senior officer taught three first-time homebuyer seminars through this organization.

The bank also participates in the Compass Working Capital program, which is an early stage non-profit organization. The program is designed to partner with a bank to offer an interest-bearing, deposit-only savings account, with no monthly service fees or charges for each participant. Participants may not withdraw funds without prior approval from Compass. The program is designed so participants can reach a savings goal of \$2,500 over a two-year period. Compass matches participants' deposits.

Additionally, the bank offers its Community room and one of its branches to two local organizations to use free of charge. Both organizations provide services to low- and moderate-income families and one organization also provides affordable housing.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

APPENDIX A

Division of Banks

Fair Lending Policies and Procedures Review

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106.

Based on a review of the bank's public comment file and its performance relative to fair lending policies and practices, no violations of the anti-discrimination laws and regulations were identified. The bank administers several layers of control for fair lending risk in the form of monitoring, audits, and policies and procedures.

Minority Application Flow

The bank's residential lending was compared with 2013 aggregate data to assist in deriving reasonable expectations for the rate of applications the bank received from minority residential loan applicants. Refer to the following table for information on the bank's minority application flow as well as a comparison to aggregate data.

Minority Application Flow					
Race	Bank 2013		2013 Aggregate Data	Bank 2014	
	#	%	%	#	%
<i>American Indian/Alaska Native</i>	0	0	0.1	0	0
<i>Asian</i>	2	0.7	0.5	0	0
<i>Black/African-American</i>	4	1.5	0.0	0	0
<i>Hawaiian/Pac. Isl.</i>	0	0	0.0	0	0
<i>2 or more Minority</i>	0	0	0.0	0	0
<i>Joint Race (White/Minority)</i>	5	1.8	0.5	0	0
Total Minority	11	4.0	1.1	0	0.0
<i>White</i>	250	91.2	79.8	199	93.0
<i>Race Not Available</i>	13	4.8	19.1	15	7.0
Total	274	100.0	100.0	214	100.0
Ethnicity					
<i>Hispanic or Latino</i>	0	0	0.6	0	0.0
<i>Not Hispanic or Latino</i>	260	94.9	79.3	198	92.5
<i>Joint (Hisp/Lat/Not Hisp/Lat)</i>	2	0.7	1.1	1	0.5
<i>Ethnicity Not Available</i>	12	4.4	19.0	15	7.0
Total	274	100.0	100.0	214	100.0

As of 2014, the bank's assessment area had a population of 44,381, of which 5.3 percent are minorities. The minority population consists of 0.6 percent Black/African-American, 0.9 percent Asian/Pacific Islander, 0.1 percent American Indian, 2.3 percent Hispanic/Latino and 1.3 percent other race.

In 2013, the bank received 11 applications, or 4.0 percent, from minorities, which is above the aggregate level of 1.1 percent. Of these 11 applications, 6 or 54.5 percent, were originated,

which is below aggregate at 74.2 percent. The bank received two applications from joint applicants that included a Hispanic/Latino. The two applications represent 0.7 percent of total, compared to the aggregate level of 1.1 percent.

In 2014, the bank did not receive any applications from minority applicants based on race, and one application from a Hispanic/Latino applicant, which was originated. In the first six months of 2015, the bank received three applications (2.9 percent of total) from applicants of racial minority. Similarly, the percentage of applications from Hispanic/Latino applicants also increased from 2014 levels, to 1 percent of total applications. Additionally, all 2015 minority applications were originated.

The bank's minority application flow is adequate based on a comparison against aggregate data and applicable demographics.

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county. Census tract boundaries normally follow visible features, but they may follow governmental unit boundaries and other non-visible features in some instances. They always nest within counties. Census tracts average about 4,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogenous for population characteristics, economic status, and living conditions to allow for statistical comparisons.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms;
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies; or
- (5) Enable or facilitate projects or activities that address needs regarding foreclosed or abandoned residential properties in designated target areas.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose bank:
 - (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Family Income: Includes the income of all members of a family that are age 15 and older.

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area: All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, "urban" consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

"Urban" excludes the rural portions of "extended cities"; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 109 Main Street, Gloucester, MA 01930."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.